

Financial statements - Exercises

Exercise 1:

The balance sheet of W. company

You need to draw up the capital employed balance sheet of a wood furniture company: W. You got the following information (in thousands of euro) at the end of 2016:

- Wood boards have been delivered 7 days ago, the company has negotiated an extension to pay its supplier within 30 days (9,523 €)
 - The inventories are evaluated at 8,405€.
 - The firm delivered finished pieces of furniture to the distributor Wood'Store 2 days ago for an amount of 6,410€. The company grants to this particular client an extension of 60 days. Other customers pay cash.
 - To finance the activity, a loan has been contracted 2 years ago at the local bank, 1,213€ still need to be reimbursed.
 - The net value of the fixed assets (plants and equipment) is 8,844€
 - Cash and equivalent: 12€
1. Draw up the capital-employed balance sheet and find the amount of equity.
 2. Do the same with the solvency and liquidity analysis.

The income statement of W. company

The financing director wants to know about the EBIT and the net income. He gives you the figures of 2016 (and 2017) (figures of 2017 are in brackets):

- The sales reached 13,410 € (19,780). It costed 7,542€ (12,540) to the company to convert raw material into pieces of furniture. Selling, administrative and advertising costs reached 3,540€ (6,800).
 - Interests have been paid on the bank loan: 530€ (350). Financial investment has been made a few years ago and the company earned 450€ (300).
 - The CEO points out that the company has paid a fiscal fine this year: 80€ (0).
 - The company has sold a fixed asset for 80€(0), the net book value of this asset was 120€ (0)
 - The tax rate is 32% (33%).
1. Draw up the income statement for the two years.
 2. How can you explain the evolution of the operating income?

3. What is the gross margin for the two years?

Change in net working capital of W. company

- Change in inventories between 2016 et 2017 : 1,000€
- Change in receivables between 2016 et 2017 : 4,450€
- Change in payables between 2016 et 2017 : 1,200€

1. What is the change in net working capital between 2016 and 2017? What does it mean?

The cash flow statement of W. company

Using the following information, compute the cash provided by operating activity of W according to the net incomes we've computed: 1,447 in 2016 and 261 in 2017.

- Among cost of sales, selling, administrative and advertizing costs, € 705 (€ 850 in 2017) were dedicated to depreciation and amortization.
- The change in operating working capital for 2017 has been calculated: €4,250.
- For 2016 you have the following information:
 - The NOWC is €5,292 in 2016 as computed in the balance sheet.
 - In 2015, the NOWC was € 4,500.
- A fixed asset has been sold for € 80 in 2016, the net book value was €120.
- Dividends have been paid to shareholders € 520 in 2016 and €420 in 2017.

Exercise 2:

You have the following information about company ZZZ:

- The operating activity has generated €451 in cash.
- The company invested for €1,670 in equipment.
- The company has sold €400 of fixed assets

What can you say about:

1/ Free cash flows?

2/The net increase in cash:

a) *If the company issues equity for €1,945 and pays €250 in dividends?*

b) *If the company issues equity for €500 and pays €50 in dividends?*

Exercise 3:

Which is the effect (positive or negative) on cash of:

- An **increase** in the balance of Prepaid Insurance?
- The **proceeds** from the sale of equipment formerly used in the business?
- The Loss on the Sale of Equipment in the previous question?
- An **increase** in the current liability Income Taxes Payable?
- An **increase** in Accounts Receivable?
- An **increase** in the current liability Warranty Liability?
- Dividends declared and paid ?
- Proceeds from the issuance of Preferred Stock?
- The Gain on the Sale of Equipment formerly used in the business?